

Message Text

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NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 DRC-01 FEA-02

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TO SECSTATE WASHDC 5370

INFO AMEMBASSY LONDON

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USMISSION NATO

C O N F I D E N T I A L SECTION 1 OF 2 VALLETTA 0551

E.O. 11652: GDS

TAGS: PINT, PFOR,MT

SUBJ: MALTA: QUARTERLY POLITICO-ECONOMIC REPORT

REF: VALLETTA 2422AND 2426

1. INTRODUCTION AND CONCLUSIONS: IN TERMS OF U.S.
POLICY INTERESTS AND OBJECTIVES, DEVELOPMENTS DURING
THE QUARTER INDICATE THAT THE MALTESE ECONOMY IS MOVING
TOWARD STABILITY AND VIABILITY, AND THEREBY DECREASING
THE POSSIBILITY OF MALTA MOVING TOO FAR TOWARD DEPENDENCY
ON COUNTRIES WITH INTERESTS IN OPPOSITION TO THOSE OF THE
UNITED STATES; WHILE AT THE SAME TIME INCREASING ITS
DEPENDENCE ON WESTERN EXPORT MARKET AND SOURCES OF
SUPPLY, AND UPON UK/NATO BASE PAYMENTS TO ASSIST IN
COUNTERING THE ADVERSE BALANCE OF PAYMENTS IMPACT OF HIGHER
OIL PRICES. WHILE STILL LOOKING FOR HANDOUTS
FROM ALL DIRECTIONS, INCREASED ECONOMIC STRENGTH WILL
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ENABLE MINTOFF TO CONTINUE TO TAKE A HANDS-OFF

ATTITUDE TOWARD THE SOVIET UNION, THEREBY MEETING PRIMARY U.S. POLICY OBJECTIVES. THE SOVIET FLEET REMAINS EXCLUDED FROM MALTA, AND THERE IS STILL NO RESIDENT SOVIET EMBASSY. ON THE OTHER HAND, MINTOFF REMAINS OSTENTATIVELY NON-ALIGNED, UNCRITICALLY PRO-ARAB AND CONSEQUENTLY PREPARED TO USE MALTA'S VOTE IN INTERNATIONAL MEETINGS IN A MANNER FREQUENTLY OPPOSED TO U.S. INTERESTS. U.S.-MALTESE BILATERAL RELATIONS ARE STEADY, ALTHOUGH TERMINATION OF THE PL 480 PROGRAM WILL BE HARD FOR MINTOFF TO SWALLOW.

2. POLITICAL: THE TREND TOWARD GREATER CONFIDENCE AND SELF-ASSURANCE AMONG LABORITES NOTED IN OUR LAST REPORT HAS LOST SOME MOMENTUM AS THE RESULT OF THE ENRGY CRISIS, THE EFFECT OF INFLATIONARY TRENDS, SHORTAGES OF CONSUMER ITEMS AND THE CONTINUED HIGH LEVEL OF UNEMPLOYMENT. THE HEAVY COST OF FUEL IMPORTS WILL SOAK UP MOST OF THE ANNUAL BASE PAYMENT FROM UK/NATO, AND THE PROSPECTS OF ACHIEVING THE MLP GOAL OF ECONOMIC INDEPENDENCE BY 1979 SEEM NOW AND EVEN LESS LIKELY POSSIBILITY.

3. YET LABOR SPOKESMEN HAVE BEEN ABLE TO POINT WITH PRIDE TO PAST ACHIEVEMENTS, PARTIALLY IN HOUSING, PUBLIC WORKS PROJECTS GENERALLY, AND THE IMPROVED SITUATION AT THE DRYDOCKS. PAST STRINGENCIES HAVE ENABLED GOM TO BUDGET FOR MORE CAPITAL CONSTRUCTION AND TO INCREASE GOVERNMENT SALARIES AND WAGES AND SOCIAL ASSISTANCE BENEFITS SUBSTANTIALLY.

4. WHILE GOM EFFORTS TO HOLD DOWN THE COST OF LIVING HAVE BEEN RELATIVELY SUCCESSFUL, PRICES INEVITABLY HAVE MOVED UPWARD, AND GOM BULK BUYING TO OBTAIN LOWER PRICES FOR KEY COMMODITY IMPORTS, AS WELL AS A GROWING COST/PRICE SQUEEZE ON WHOLESALERS AND RETAILERS, HAS RESULTED IN OCCASIONAL IRRITATION SHORTAGES. ALTHOUGH SOME NEW ENTERPRISES HAVE BEEN ESTABLISHED AND SOME NEW JOBS CREATED, UNEMPLOYMENT IS STILL OF MAJOR CONCERN, AND THERE ARE SOME SIGNS OF DISSATISFACTION AMONG THE PIONEER CORPS VOLUNTEERS.

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5. MINTOFF'S OIL DEAL WITH QADHAFI IS ANOTHER SORE POINT. THE VERY HEAVY INCREASES IN FUEL PRICES AND ELECTRICITY RATES HAVE LED MANY TO BELIEVE AND OPENLY ACCUSE MINTOFF OF AGREEING ON AN EXORBITANT PRICE FOR LIBYAN CRUDE IN EXCHANGE FOR SUPPLY ASSURANCES FOR CY 1974. MINTOFF'S VISITS TO OIL-PRODUCING COUNTRIES FAILED TO PRODUCE ANY APPARENT RESULTS. MINTOFF'S SILENCE ON PRICE DETAILS HAS CAUSED HIS OWN SUPPORTERS TO WONDER IF INDEED

HE HAD BEEN TAKEN BY LIBYA, A PARTICULARLY DAMNING ACCUSATION FOR A MALTESE. CERTAINLY, HIS FAILURE TO MAKE KNOWN THE SPECIFICS OF THE DEAL GAVE GROUNDS FOR SUCH QUESTIONS.

6. THE MLP GOT A SMALL FILLIP DURING THE QUARTER WITH THE DEFECTION OF A NATIONALIST M.P. AND THE CONSEQUENT INCREASE OF THEIR PARLIAMENTARY MAJORITY FROM ONE TO THREE. THIS DEVELOPMENT WILL PROVIDE MORE FLEXIBILITY ON ABSENCE FROM PARLIAMEN, AND LESSENS THE ALREADY REMOTE POSSIBILITY OF A LOSS OF CONFIDENCE VOTE.

7. THE NATIONALIST PARTY ALSO HAD ITS PROBLEMS DURING THE QUARTER, WITH THE EMBARRASSING PUBLICITY GIVEN TO AN ABORTIVE ATTEMPT BY A MAJORITY WITHIN THE PARTY TO OUST BORG OLIVIER AS LEADER. THE PUBLIC ANNOUNCEMENT OF ITS SHADOW CABINET, THE MAJORITY OF WHICH CONSISTS OF THE YOUNGER, BRIGHTER M.P.'S WAS POSITIVELY RECEIVED, BUT THE SPLIT BETWEEN B.O.'S SUPPORTERS AND DETRACTORS WILL BE DIFFICULT TO PAPER OVER. THE PUBLIC DECLARATION OF SOLIDARITY SIGNED BY ALL MEMBERS OF THE N.P. PARLIAMENTARY GROUP DID NOT INCLUDE A SPECIFIC REAFFIRMATION OF SUPPORT FOR B.O. AS PARYT LEADER.

8. THE ESTABLISHMENT OF THE DEMOCRATIC NATIONAL PARTY (DNP) BY DR. A.F. COLOMBO IN FEBRUARY ADDED YOME COLOR-ATION TO THE POLITICAL SCENE, BUT COLOMBO HAS YET TO INDICATE WHAT, IF ANY, BACKING HE HAS FROM KNOWN POLITICAL FIGURES. FORMER POLICE COMMISSIONER BENCINI, WHO CLAIMS SUBSTANTIAL PUBLIC POLITICAL SUPPORT. TELLS US THAT THE RUMORS THAT HE IS A COLOMBO SUPPORTER ARE NOT TRUE, AND THAT HE WILL START HIS OWN POLITICAL CAMPAIGN IN CONFIDENTIAL

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ABOUT SIX MONTHS. NEITHER COLOMBO NO BENCINI IS LIKELY TO HAVE MUCH SUCCESS.

9. FOREIGN POLICY. MINTOFF IS DISPLAYING AND UNCHARACTER-ISTICALLY MODERATE BEHAVIOR TOWARD THE UK AND NATO ALLIES. THE NEXT BASE PAYMENT IS DUE SHORTLY AND THER HAS NOT BEEN ANY INDICATION OF ANOTHE UK/MALTA ROW. IT IS LIKELY THAT THE PAYMENTS WILL BE RECEIVED QUIETLY. HOW LONG MINTOFF WILL REMAIN RELUCTANT TO TACKLE WILSON ON COMPENSATION FOR DEVALUATION IS IMPOSSIBLE TO SAY, BUT HE HAS MANY OTHER PROBLEMS WHICH WILL NO DOUBT KEEP HIM OCCUPIED FOR SOME TIME TO COME.

10. U.S. EXCESS EQUIPMENT PROGRAM HAS CONTINUED TO REPRESENT A SIGNIFICANT PLUS IN OUR RELATIONS. TO

SOME DEGREE, THIS WILL BE OFFSET BY NOTICE OF FINAL
U.S. REFUSAL TO EXTEND PL480, TITLE II PROGRAM, JUST
TRANSMITTED TO GOM.

11. MINTOFF'S RELATIONS WITH ARAB COUNTRIES, PARTICULARLY LIBYA, APPEAR TO HAVE COOLED SOMEWHAT. HIS
MIDDLE EAST TRIP APPARENTLY WAS DISAPPOINTING TO HIM,
AND QADHAFI'S APPARENT IN
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12. ITALY HAS CONTINUED ITS FORTHCOMING ATTITUDE
TOWARD MINTOFF REQUESTS, BUT ALTHOUGH ITS PRESENCE IN
MALTA HAS INCREASED CONSIDERABLY, IT IS DOUBTFUL THAT
ITS INFLUENCE HAS BEEN INCREASED PROPORTIONATELY.

13. PRC ASSISTANCE HAS FINALLY BEGUN TO TAKE CONCRETE
FORM WITH THE ARRIVAL OF HEAVY DUTY TRUCKS PURCHASED
FROM ITALY. CHINESE MANAGERS ARE ASSISTING GOM TO SAVE
TWO SMALL DISTRESSED MANUFACTURING FIRMS, AND SOME WORK
HAS BEGUN ON THE 300,000 TON DRYDOCK, BUT LITTLE HAS
BEEN HEARD OF THE FACTORIES THAT THEY ARE TO OPEN AND
OPERATE. PRC INFLUENCE ON MINTOFF'S FOREIGN POLICY IS
PERCEPTIBLE, HOWEVER, PARTICULARLY IN AREAS OF LITTLE
DIRECT IMPORTANCE TO MALTA, E.G., RECOGNITION OF VIET
CONG, KHMER ROUGE, ETC.

14. ECONOMIC: DESPITE THE CLOUDY INTERNATIONAL PICTURE
HIGHLIGHTED BY INFLATIONARY PRESSURES AND THE ENERGY
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CRISIS, ECONOMIC PERFORMANCE WAS HIGHLIGHTED DURING THE
PAST QUARTER BY THE PUBLICATION OF A NUMBER OF IMPRE-
SSIVE INDICATORS OF ECONOMIC GROWTH DURING 1973.
PROVISIONAL NATIONAL ACCOUNT FIGURES INDICATE THAT
GROSS DOMESTIC PRODUCT AT FACTORY COST REACHED 100.8
MILLION MALTA POUNDS (ONE MALTA POUND EQUALS APPROX
DOLS 2.60), AN INCREASE OF 12.5 PERCENT OVER
1972 (89.6 MILLION MALTA POUNDS). GROSS NATIONAL
PRODUCTS AT FACTORY COST ROSE TO 108.3 MILLION MALTA
POUNDS, AND INCREASE OF 10.6 PERCENT OVER THE 1972
FIGURE (97.9 MILLION MALTA POUNDS). MANUFACTURING
OUTPUT INCREASED BY 29.2 PERCENT FROM 48.7 MILLION
MALTA POUNDS IN 1972 TO 62.9 MILLION MALTA POUNDS IN
1973. EXPORT ROSE TO SLIGHTLY UNDER 36 MILLION POUNDS COMPARED WITH
26 MILLION MALTA POUNDS IN 1972.
THE VISIBLE TRADE GAP, HOWEVER, STOOD AT 52 MILLION
MALTA POUNDS, IMPORTS HAVING RISEN TO 88.1 MILLION MALTA
POUNDS, AND INCREASE OF 20.9 MILLION MALTA POUNDS OVER
1972.

15. THE MALTA DRYDOCKS CORPORATION, WHICH IS THE
LARGEST EMPLOYER (OVER 4,000) AND CHRONICALLY IN DIFFI-
CULTY, ALSO ACHIEVED AN IMPRESSIVE PERFORMANCE, SALES
FOR THE FINANCIAL YEAR ENDING MARCH 31 ARE EXPECTED TO
REACH 7 MILLION MALTA POUNDS, AN ALL-TIME HIGH AND AN
INCREASE OF 35 PERCENT OVER THE PREVIOUS YEARS'S FIGURE.
RECORDS WERE ALSO BROKEN IN THE TOURISM SECTOR WITH 211,000
ARRIVALS DURING 1973, AN INCREASE OF 41 PERCENT OVER
1972 AND 13 PERCENT OVER THE PREVIOUS HIGH IN 1969.
TOURISM CONTRIBUTED AND ESTIMATED MET FOREIGN EXCHANGE
INFLOW OF 9.7 MILLION MALTA POUNDS, WHICH IS NOT FAR
BELOW THE INCREASE IN GNP. UNEMPLOYMENT WAS REDUCED
FROM 6,360 AT THE END OF 1972 TO 4,894, A NET DECREASE
OF 1,466, LARGELY ATTRIBUTED TO PIONEER CORPS RECRUIT-
MENT. EMPLOYMENT INCOME ROSE BY 9.2 PERCENT TO 55.4
MILLION MALTA POUNDS. INCOME FROM FARMING, FISHING, AND
PRIVATE SERVICES ROSE BY 14.9 PERCENT. THE RISE IN
INCOME WAS DUE TO THE INCREASE IN THE NUMBER OF GAIN-
FULLY OCCUPIED PERSONS COUPLED WITH HIGHER WAGE RATES
AND AVERAGE EARNINGS PER WORKER. GROSS TRADING PROFITS
FOR THE YEAR WERE 19.5 PERCENT HIGHER THAN IN 1972.
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16. THE BALANCE OF PAYMENTS REGISTERED A HEALTHY SURPLUS OF 12.6 MILLION POUNDS ON CURRENT ACCOUNT AND A NET ADDITION OF FOREIGN RESERVES OF 24.4 MILLION MALTA POUNDS. IN VIEW OF PERSISTENT INTERNATIONAL INFLATIONARY PRESSURES, HIGH FUEL COSTS AND THE UNCERTAINTY OF SUPPLY, THE PROBLEM HIGHLIGHTED FOR MALTA DURING THE FIRST QUARTER OF 1974 IS HOW TO MAINTAIN THIS MOMENTUM NOW THAT IT HAS SURPASSED THE TOSTOWIAN TAKEOFF POINT (NINE PER CENT INCREASE IN GNP).GETZ

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